



California Public Employees' Retirement System

2006 Biennial Salary Survey for Senior Executive and Investment Management Positions

**Prepared for the
Performance and Compensation Committee of the
Board of Administration**

May 12, 2006

2006 BIENNIAL SALARY SURVEY FOR SENIOR EXECUTIVE AND INVESTMENT MANAGEMENT POSITIONS

INTRODUCTION

General Overview

Since its inception in 1989, the Performance and Compensation Committee of the Board of Administration, has endeavored to carefully scrutinize the various elements necessary for a sound executive compensation program and to weigh their importance in recruiting and retaining skilled executives. From the outset, the Committee's work has been guided by an emphasis upon pay for performance and reviewing compensation as a natural and necessary part of a formal performance appraisal process. In 1996, the Board retained the firm of Watson Wyatt Worldwide to recommend compensation policies and procedures and to develop specific incentive programs for the exempt executive and senior investment management positions in existence at that time. The positions have now been transitioned to civil service, with the exception of the Chief Executive Officer, which remains exempt.

Government Code section 20098 (SB 269, Stats 2003) authorizes the CalPERS Board to set the compensation for these positions, guided by the principles contained in existing civil service laws, and to compensate employees at levels competitive with employees in other retirement and financial service entities. In accordance, this survey has been conducted to determine prevailing compensation for comparable investment and actuarial positions in private sector insurance and banking industries, the primary recruitment source for such positions.

The Survey Process

In December 2005, through the RFP process, the Board again engaged the firm of Watson Wyatt Worldwide to serve as its compensation consultant and to conduct a comprehensive salary survey from a number of data sources. For investment management positions, Watson Wyatt provided a Market Pricing Report reflecting base salary and total compensation data at the 25th percentile and the median of the data for the insurance and banking sectors. Although the biennial survey data provides the basis for base salary adjustments, we have also included data on total compensation for information purposes.

Survey Sources

Watson Wyatt's survey sources, by classification, are:

Chief Executive Officer

For the Chief Executive Officer position, Watson Wyatt conducted a special survey targeting the ten largest public pension funds in the United States, as well as a sample of large California public pension funds. In addition, information was obtained from a number of other states that, while not among the largest in terms of assets, have implemented market- and performance-based compensation programs.

INTRODUCTION – Continued

Chief Actuary

For the Chief Actuary position, data represents the top managerial actuarial positions in private sector insurance organizations, many of which are the same sources for the investment management positions.

INVESTMENT MANAGEMENT POSITIONS

Chief Investment Officer Senior Investment Officers Senior Portfolio Managers Portfolio Managers

LOMA (Life Office Management Association, Inc.) compensation survey of executive positions in the insurance industry.

Towers Perrin - A survey of financial services companies. Asset sizes range from \$280 million to \$1 trillion. The asset size above \$50 billion includes many insurance companies and several New York City headquartered banks.

Watson Wyatt Data Services (WWDS) report is comprised of over 1,200 organizations grouped by industry. Comparisons were made to insurance companies and financial services companies.

The following survey was not available for this biennial review, as it is no longer publishing results.

Investment Management Compensation Survey conducted by Russell Reynolds Associates and the Association for Investment Management and Research (AIMR). This comprehensive published survey of institutional investment management compensation positions was especially useful in 2004 for establishing market information for portfolio management positions. Although it is not available this year; Watson Wyatt has begun a conversation with AIMR regarding restarting this survey or developing an alternative data set.

The absence of the AIMR survey for Portfolio Managers explains the appearance of a drop in the market for these positions. A consideration of the market among independent investment management companies suggests that the current range for portfolio managers is wide enough and positioned appropriately to accommodate base salary attraction and retention needs from both banking and insurance institutional investors and the higher risk independent management comparators.

All private sector survey data has been updated to April 1, 2006.

INTRODUCTION – Continued

Additional Data Relating to Investment Management Companies

At the request of the Committee, as referenced in the RFP, this year the compensation consultant also collected data from private investment management companies, in addition to the insurance and banking sector data. This data is attached as Appendix 1. Historically, institutional investment positions in the insurance and banking sector have been considered to be the best benchmarks for CalPERS investment management positions. Investment or asset management company data has not been used in the past since these positions typically involve more risk and a product sales component not present in the institutional investing environment where outcomes are more focused on managing for the long term.

Watson Wyatt has provided information specific to private investment management companies as a check on the competitive flexibility of the existing and proposed salary ranges. Watson Wyatt utilized its confidential data sources to develop this information.

Watson Wyatt Sourced Data - A confidential survey of Investment Management companies. Asset sizes range from \$1 billion to \$495 billion.

Application of Policies and Procedures

The approach to providing salary range alternatives for the positions in this report is based on applying the Policies and Procedures in the same manner as the Committee did in connection with the 2004 Biennial Salary Survey. Specifically, for investment management positions, the midpoint of CalPERS base salary range is compared with the median of the survey data.

CONTENTS OF THIS REPORT

Information is presented for each specific group of positions in the following categories:

- Salary Setting History
- Policy Provisions Relating to each Position
- Survey Data
- Marketplace Considerations (if appropriate to the position)
- CalPERS Current Data
- Internal Relationship Considerations (if appropriate to the position)
- Alternative Options for Consideration

Section	Page Number
INTRODUCTION	2
Chief Executive Officer	6
Chief Actuary	8
INVESTMENT MANAGEMENT POSITIONS	10
Senior Investment Officer	13
Chief Investment Officer	15
Senior Portfolio Manager	17
Portfolio Managers	10
SUMMARY OF ALTERNATIVE OPTIONS	22
Additional Data Relating to Investment Management Positions for Informational Purposes	Appendix I
CalPERS Base Salary Ranges by Quartile and Merit Matrix which Determines Base Salary Increases	Appendix II
Investment Management Position Turnover Analysis (2004 – Present)	Appendix III

CHIEF EXECUTIVE OFFICER

Salary Setting History - 2004

Survey data from the largest public pension funds in the United States was presented to the Committee in April 2004, with a recommendation for an adjustment in the Chief Executive Officer's base salary range. The Committee deferred action at that time and asked Watson Wyatt and staff to bring back additional information relative to CEO salary comparisons. In May 2004, a new base salary range was established for the CEO, with primary consideration given to CalSTRS data, as opposed to the survey data array as a whole. This resulted in a new base salary range of \$165,000 – 225,000, an increase of 31% from the previously existing range. In addition, in November of 2004, the Board approved an adjustment to the incentive schedule for the Chief Executive Officer, increasing it from 0 – 30% of base salary to 0 – 40% of base salary.

Policy Provisions Relating to the Chief Executive Officer

The base salary range for the CEO position will be adjusted on the basis of CEO salary data compiled from United States public pension funds most comparable to CalPERS in terms of assets and membership size. The CEO salary range will be targeted between the median and the 75th percentile of survey data. Historically, the midpoint of the survey data array was used to establish the maximum of the salary range.

Survey Data - 2006

Watson Wyatt conducted a special survey targeting the largest public pension funds in the United States, as well as a number of California's largest local government pension systems. In addition, information was obtained from a number of state pension funds that have implemented market- and performance-based compensation programs. Following are the public funds responding to the survey, in order of the current rate of pay for their CEO.

Public Fund	Members (in 000s)	Assets (\$ Billion)	Flat Rate or Range Midpoint	Salary Range (where existing)	Incentive Potential
Alabama Retirement	297	\$ 29	\$370,294		No
Colorado PERA	245	35	254,202	203,362 – 305,042	20%
Wisconsin Investment Board	500	76	248,933	166,025 – 331,842	20%
CalSTRS	776	130	197,496	165,000 – 229,992	40%
Ohio Public Employees	814	64	194,708		No
Florida State Investment Board	920	110	176,663		8%
LA County Employees (LACERA)	193	32	169,361	135,489 – 203,232	No
Los Angeles Fire and Police	26	14	154,731	122,837 – 184,224	No
Los Angeles City Employees	41	9	150,524	120,436 – 180,612	No
Virginia Commonwealth Retirement	535	44	137,350		No
New Jersey	785	77	117,763		No
North Carolina	720	67	109,279		No

Median of Survey Data*	Midpoint between Median & 75 th percentile of Survey Data	75 th percentile of Survey Data*
\$173,012	\$222,333	\$271,653

*Calculated using midpoint of the range if a range was reported, or the flat rate of pay if no range exists.

CHIEF EXECUTIVE OFFICER – Continued

Marketplace Considerations

CalPERS is the largest and most complex retirement system in the United States and the only public system responsible for both a retirement program and a health benefits program. Retirement and health benefits administered by CalPERS affect the well being and financial security of over one million people. CalPERS is a recognized national leader in the pension and health care fields. Although the policies provide that survey data for the CEO position will be gathered from other public pension systems, CalPERS' size and unique nature make it difficult to identify viable benchmarks. The Board's Compensation Policies and Procedures state that the Chief Executive Officer base salary range will be targeted between the median and 75th percentile in the array of survey data.

CalPERS Current Data

Current Base Salary Range	Midpoint of Current Range	75 th percentile of Current Range	Incentive Schedule
\$165,000 – 225,000	\$195,000	\$210,000	0 – 40% (Target of 27%)
Incumbent's Current Base Pay	Quartile in the Range	Total Compensation at midpoint of base salary range plus incentive award at target	
\$216,000	Fourth	\$247,650	
% increase for range maximum to reach the midpt between median and 75 th %tile of survey data: 0%			

Alternative Options for Consideration

1. Make no change in the base salary range for the Chief Executive Officer position. The policy states that the CEO's salary will be targeted between the median and 75th percentile of the salary data. As noted above, historically the maximum of the current range was compared to the midpoint of the survey data. Applying the same criteria, the maximum of the current range is greater than the midpoint between the median and the 75th percentile of the salary data.
2. Increase the base salary range by 6%. This would provide for growth in the years until the next salary survey and would allow further progression within the range, based on the performance of the incumbent. This would provide a new base salary range for the CEO of \$175,000 - \$239,000 (rounded to the nearest thousand).

CHIEF ACTUARY

Salary Setting History - 2004

In 2004, the Board approved a base salary increase for the Chief Actuary of approximately 20% to align it with the salary survey data. In addition, the incumbent was at the maximum of the current range and the increase provided an opportunity for growth within the range. In November 2004, the Board approved an adjustment to the incentive schedule for the Chief Actuary, increasing it from 0 – 30% of base salary to 0 – 40% of base salary.

Policy Provisions Relating to the Chief Actuary

The base salary range for the Chief Actuary will be adjusted on the basis of private sector salary survey data for top actuarial executives. The CalPERS base salary range will be targeted between the 25th percentile and the median of the data. Historically, it has been the practice to target the range maximum between the 25th percentile and the median of the data.

Survey Data – 2006

The following salary data was obtained from Watson Wyatt:

CHIEF ACTUARY SURVEY DATA					
Data Source	Number of Positions	Base Salary		Total Compensation	
		25 th %tile	Median (50 th %tile)	25 th %tile	Median (50 th %tile)
LOMA	13	\$260,886	\$328,716	\$466,985	\$591,480
Mercer (Insurance)	6	216,725	250,543	282,581	361,837
WWDS (Insurance)	43	177,715	208,709	232,606	258,799
MIDPOINT OF SURVEY DATA ARRAYS		\$216,725	250,543	282,581	361,837
MIDPOINT BETWEEN 25 TH PERCENTILE AND THE MEDIAN OF THE DATA		\$233,634			

CalPERS Current Data

Current Base Salary Range	Total Compensation at Midpoint of Range plus incentive award at target (27%)
\$180,195 – 225,235	\$257,448
Incumbent's Current Base Salary	Incumbent's Placement in Range
\$219,238	Fourth Quartile
% increase for Range Maximum to reach Midpoint of 25 th %tile and Median of Survey Data	
3.7%	

CHIEF ACTUARY – Continued

Alternative Options for Consideration

1. Increase the base salary range for the Chief Actuary by 3.7%. This brings the range maximum to the midpoint between the 25th percentile and the median of the survey data, in accordance with the policy provisions. This would result in a new base salary range of \$187,000 – 234,000 (rounded to the nearest thousand).
2. Increase the base salary range for the Chief Actuary by 6% to provide additional opportunity for growth within the range until the next biennial survey, based on the performance of the incumbent. This would result in a new base salary range of \$191,000 – 239,000 (rounded to the nearest thousand).

SENIOR INVESTMENT MANAGEMENT POSITIONS

Salary Setting History – 2004

In April 2004, salary survey data and recommendations were presented to the Performance and Compensation Committee for consideration. A 1% increase was applied to the salary range and also granted to the Chief Investment Officer, Senior Investment Officer and Senior Portfolio Manager incumbents at that time. A number of questions were raised by the Committee regarding policy interpretation and application of the data. Staff was asked to provide additional information and alternatives for further consideration. In May 2004, the Committee adopted recommendations to increase the ranges by 12% for the Chief Investment Officer, Senior Investment Officers, and Senior Portfolio Managers, and by 19% for Portfolio Managers to bring the maximum of the base salary ranges to the median of the survey data.

Staff was again asked to present information that further detailed the interpretation of policy provisions regarding the median of the data and how it is applied, and to provide alternatives that would insure competitive salary levels for recruiting until the next salary survey in 2006. In June 2004, new salary ranges were approved that set range maximums at 8% above the median of the data.

The Committee, however, still had concerns about the symmetry of the ranges and the inconsistent range widths. Watson Wyatt was asked to provide recommendations to address these issues. In October 2004, Watson Wyatt presented, and the Committee approved, the following changes to the range structures:

- Alignment of the salary range midpoint with the market data array midpoints
- Rounding ranges to the nearest \$1,000
- Progression of the range widths as responsibility increases
- Widening the ranges to provide for career development, avoidance of increased turnover risk, and flexibility to recruit above the range midpoint if necessary.

Policy Provisions Relating to Investment Management Positions

Private sector salary survey data will be obtained for Chief Investment Officer, Senior Investment Officer and Portfolio Manager positions. Primary consideration will be given to data for Senior Investment Officers over equities and over fixed income investments. CalPERS base salary ranges for investment management positions will be targeted at the median of the data unless recruitment and retention considerations compel breaking the existing parity relationships at the Senior Investment Officer, Senior Portfolio Manager or Portfolio Manager levels.

Definition: *For purposes of this provision, for investment positions, the “median of the data” shall be interpreted as being within 10% of the midpoint in the array of all specialized survey positions comparable to Senior Investment Officer (SIO) and Portfolio Manager (PM), respectively.*

SENIOR INVESTMENT MANAGEMENT POSITIONS – Continued

The policies also state:

Base Pay Range Increase to the Median of the Data (Investment Management): When the maximum of the base salary range for either the SIO or PM levels is found to be below the median of the data, as defined, an initial annual increase of up to 10% in the base salary range, and a second year increase of up to 15%, shall be made in order to bring the maximum of the base salary range to within this definition of the “median of the data” prior to the next biennial salary survey. The salary range for CIO and SPM positions will be adjusted under this provision by the same percentage amount as that for SIO positions.

Individual Base Pay Adjustment to the Median of the Data (Investment Management): The base salary rates of incumbents in investment management positions will also be adjusted by the same percentage as the range is adjusted to reach the median of the data, prior to any performance-based adjustment provided for in these Policies and Procedures. Adjustments to individual pay rates will be subject to review and approval by the Chief Investment Officer, or CEO in the case of the CIO adjustment, who will certify that performance warrants the adjustment.

Recent Salary Trends for Investment Management Positions

The data reviewed in this analysis shows that over the last two years, base salaries grew at approximately 4% per year for investment positions, especially at the higher levels. While the portfolio manager positions initially appear to have decreased, comparisons of these positions as well as other investment management data suggest moderate increases in base salary accompanied with large increases in incentive compensation awards tied to improving market returns. We believe these moderate increases to base salaries reflect conditions of the equity markets. As markets remain stable or improve, base salaries for investment positions will continue to see moderate increase estimated at 3% per year with significant performance based incentive awards being the norm.

Under the Policies and Procedures, the Chief Investment Officer and Senior Portfolio Manager base salary ranges are to be adjusted by the same percentage as the Senior Investment Officers. Consequently, we will first consider the Senior Investment Officer data.

OTHER CONSIDERATIONS FOR INVESTMENT MANAGEMENT POSITIONS

Internal Salary Relationships with Lower Level Civil Service Classes

Salary range adjustments for the represented civil service investment classes below the management levels are determined through the collective bargaining process which is influenced, in part, by other job categories in the bargaining unit, and to a greater extent, the availability of funds to support general pay increases. The collective bargaining process lacks the focus on external salary data for these unique classes that comprise a minute part of a very large bargaining unit.

SENIOR INVESTMENT MANAGEMENT POSITIONS – Continued

The result over the past years has been a significant increase in the differential between CalPERS investment management salary ranges and those of positions in the civil service classes reporting to them. Since the last survey period, staff completed a revision to the Investment Officer classification series to include a new level of Investment Officer III (salary range of \$7647 – 8029 monthly or \$91,764 – 96,348 annually) that bridged part of the salary gap between the top class in the IO series and Portfolio Manager. However, a gap of 23.5% still exists between the maximum of the Investment Officer III salary range and the minimum of the Portfolio Manager salary range of \$119,000 – 155,000 annually. In addition, there is no incentive opportunity at the IO III level. Any increase in the base salary ranges of the Investment Management classes will further widen this gap.

Recruitment and Retention Experience

Appendix III depicts position turnover since the last salary survey. The data indicates that incumbents left CalPERS for a variety of reasons. Three of the ten vacancies were due to incumbents promoting within CalPERS. The average tenure for the positions was three years, nine months. On average, it took six months to replace an incumbent.

Recruitment data provided by a search consultant working with CalPERS to recruit Portfolio Managers generally supports the survey data. The consultant indicates that while our base salaries for PMs are not too far off across asset classes, total compensation is still lagging.

The most difficult positions to fill have been Portfolio Manager, Domestic Research and Portfolio Manager, Short Duration Fixed Income. Candidates with the credentials CalPERS is seeking enjoy total compensation in excess of \$400,000 or more. Within Alternative Investments, the experience has been the same.

SENIOR INVESTMENT OFFICER

Senior Investment Officer, Alternative Investments
Senior Investment Officer, Asset Allocation and Risk Management
Senior Investment Officer, Fixed Income
Senior Investment Officer, Global Equities
Senior Investment Officer, Real Estate

Salary Setting History – 2004

The salary history and, specifically the actions of the Board in 2004, in relation to the Senior Investment Officer position are discussed above under Senior Investment Management Positions.

Survey Data – 2006

SENIOR INVESTMENT OFFICER SURVEY DATA				
Data Source	Number of Positions	Base Salary at Median (50 th %tile)	25 th %tile	Total Comp Median (50 th %tile)
<u>Global Equity</u>				
LOMA	7	339,151	493,700	665,989
Towers Perrin	11	340,269	495,223	685,773
<u>Fixed Income</u>				
LOMA	18	310,767	561,426	808,328
Towers Perrin	18	298,390	502,552	730,794
<u>Real Estate</u>				
LOMA	13	266,103	405,729	631,343
Towers Perrin	12	266,981	437,639	675,304
<u>Asset Alloc/Risk Mgt</u>				
Mercer	16	278,462	255,795	353,463
Towers Perrin	8	296,296	388,430	721,371
<u>Alternative Invests.</u>				
Mercer	16	278,462	255,795	353,463
Towers Perrin	5	193,692	272,215	371,679
MIDPOINT OF DATA ARRAY*		\$287,379	\$421,680	\$670,646

*For purposes of these tables, reference to the median of the data means the midpoint of the survey data array.

Marketplace Considerations

Survey data reflects a 9% increase in base salaries for investment positions over the past two years, indicating that the market has held the line on base pay and that the 8% estimate in 2004 was close to market. The survey data does, however, point to considerably greater increases in pay-at-risk or incentive pay, as reflected in increasing total compensation figures.

SENIOR INVESTMENT OFFICER – Continued

CalPERS Current Data

Current Base Range	Midpoint of Range	Total Comp at midpoint of range plus award at target
\$233,000 – 337,000	\$285,000	\$427,500
% increase for range midpoint to reach the midpoint of the Survey Data		1%

Incumbents' Placement in Current Range	
Senior Investment Officer, Alternative Investments	Second Quartile
Senior Investment Officer, Asset Allocation/Risk Mgmt.	Third Quartile
Senior Investment Officer, Fixed Income	Third Quartile
Senior Investment Officer, Global Equity	Third Quartile
Senior Investment Officer, Real Estate	Third Quartile

Internal Relationship Considerations

Historically, the salary survey data has been applied using the same methodology to all the Senior Investment Officer positions, despite differences in portfolio type and size or the extent to which each portfolio is managed in house. The SIO positions will continue to be assigned the same salary range unless compelling recruitment considerations require breaking the existing parity relationship.

Alternative Options for Consideration

1. Increase the base salary range by 1% to bring the range midpoint to the median of the survey data, as required by the policy provisions. This would be applied to the range and also applied immediately to the incumbents' base salaries, in accordance with the policy, which states, "*The base salary rates of incumbents in investment management positions will also be adjusted by the same percentage as the range is adjusted to reach the median of the data, prior to any performance-based adjustment...*" A 1% increase would result in a base salary range of \$235,000 – 340,000 (rounded to the nearest thousand).
2. Increase the base salary range for the Senior Investment Officer position by 1% plus 6%. This would be a similar approach to the increases in 2004, and would anticipate continued upward movement of approximately 3% per year for the two years until the next survey. This approach would put CalPERS in a "leading" rather than "lagging" position in relation to the marketplace survey data. A 6% increase would result in a base salary range for the SIOs of \$249,000 – 360,000 (rounded to the nearest thousand).

CHIEF INVESTMENT OFFICER

Salary Setting History - 2004

The salary history and, specifically the actions of the Board in 2004, are discussed above under Senior Investment Management Positions.

Policy Provisions Relating to the Chief Investment Officer

CalPERS base salary ranges for investment management positions will be targeted at the median of the data unless recruitment and retention considerations compel breaking the existing parity relationships at the Senior Investment Officer, Senior Portfolio Manager and Portfolio Manager levels. The CIO and SPM base salary ranges will be adjusted by the same percentage as the SIO, unless the CIO data compel otherwise for that position.

Definition: For purposes of this provision, for investment positions, the “median of the data” shall be interpreted as being within 10% of the midpoint in the array of all specialized survey positions comparable to Senior Investment Officer (SIO) and Portfolio Manager (PM), respectively.

Survey Data - 2006

CHIEF INVESTMENT OFFICER SURVEY DATA				
Data Source	Number of Positions	Base Salary at the Median (50 th %tile)	Total Comp. 25 th %tile	Median (50 th %tile)
LOMA	22	\$469,594	\$652,736	\$1,225,119
Mercer	7	418,793	442,404	768,166
WWDS (Insurance)	34	349,065	399,155	744,881
MIDPOINT OF DATA ARRAY		\$418,793	\$442,404	\$768,166

CalPERS Current Data

Current Base Range	Midpoint of Range	Total Comp at midpoint of range plus award at target
\$356,000 – 534,000	\$445,000	\$667,500
% increase for range midpoint to reach Median of Survey Data		0%

Incumbent's Current Base Pay*	Quartile in the Range
\$534,000	Fourth

*New incumbent to be appointed effective June 1, 2006, at maximum of the range.

CHIEF INVESTMENT OFFICER – Continued

Alternative Options for Consideration

NOTE: The Policies and Procedures state that the CIO and SPM base salary ranges will be adjusted by the same percentage as the SIO, unless the CIO data compel otherwise for that position. Therefore, the following options are the same as those for the Senior Investment Officer. It is anticipated that the same selection will be made for both the CIO as the SIO.

1. Increase the base salary range by 1%, consistent with SIO range movement to bring the range midpoint to the median of the survey data, as required by the policy provisions. This would be applied to the range and also applied immediately to the incumbent's base salary, in accordance with the policy, which states, *"The base salary rates of incumbents in investment management positions will also be adjusted by the same percentage as the range is adjusted to reach the median of the data, prior to any performance-based adjustment..."* A 1% increase would result in a base salary range for the CIO of \$360,000 – 539,000
2. Increase the base salary range for the Chief Investment Officer position by 1% plus 6% if this alternative is selected for the SIO. This would be a similar approach to the increases in 2004, and would anticipate continued upward movement of approximately 3% per year for the two years until the next survey. This approach would put CalPERS in a "leading" rather than "lagging" position in relation to the marketplace survey data. A 6% increase would result in a base salary range for the CIO of \$380,000 – 571,000 (rounded to the nearest thousand).

SENIOR PORTFOLIO MANAGER

Salary Setting History

Historically, there has not been sufficient survey data available to provide an appropriate private sector benchmark at this level. Consequently, the Policies and Procedures provide that the Senior Portfolio Manager base salary range will be adjusted by the same percentage as the Senior Investment Officer range. In 2006, Watson Wyatt was able to provide a data source for the Senior Portfolio Manager position, however, since the policy calls for the SPM adjustment to be tied to the SIO data, staff believe the current policies would have to be revised if the Committee wishes to consider SPM survey data separately in the future.

Policy Provisions Relating to the Portfolio Manager

Private sector salary survey data will be obtained for Chief Investment Officer, Senior Investment Officer and Portfolio Manager positions. CalPERS base salary ranges for investment management positions will be targeted at the median of the data unless recruitment and retention considerations compel breaking the existing parity relationships at the Senior Investment Officer, Senior Portfolio Manager or Portfolio Manager levels. The CIO and SPM base salary ranges will be adjusted by the same percentage as the SIO.

Definition: For purposes of this provision, for investment positions, the “median of the data” shall be interpreted as being within 10% of the midpoint in the array of all specialized survey positions comparable to Senior Investment Officer (SIO) and Portfolio Manager (PM), respectively.

CalPERS Current Data

Current Base Range	Midpoint of Range	Total Comp at midpoint of range plus award at target
\$162,000 – 226,000	\$194,000	\$271,600

Incumbents' Placement in Salary Range	
Sr. Portfolio Manager, Alternative Investments	First Quartile
Sr. Portfolio Manager, Fixed Income (1)	First Quartile
Sr. Portfolio Manager, Corporate Governance	Third Quartile
Sr. Portfolio Manager, External Equity	Third Quartile
Sr. Portfolio Manager, Fixed Income (2)	Third Quartile
Sr. Portfolio Manager, Global Equities	Third Quartile

Alternative Options for Consideration

NOTE: The Policies and Procedures state that the CIO and SPM base salary ranges will be adjusted by the same percentage as the SIO, unless the CIO data compel otherwise for that position. Therefore, the following options are the same as those for the Senior Investment Officer. It is anticipated that the same selection will be made for both the CIO as the SIO.

1. Increase the base salary range by 1%, consistent with SIO range movement to bring the range midpoint to the median of the survey data, as required by the policy provisions. This would be applied to the range and also applied immediately to the incumbent's base salary, in accordance with the policy, which states, “*The base salary*

rates of incumbents in investment management positions will also be adjusted by the same percentage as the range is adjusted to reach the median of the data, prior to any performance-based adjustment...” A 1% increase would result in a base salary range for the SPM of \$164,000 – 229,000.

2. Increase the base salary range for the Senior Portfolio Manager position by 1% plus 6% if this alternative is selected for the SIO. This would be a similar approach to the increases in 2004, and would anticipate continued upward movement of approximately 3% per year for the two years until the next survey. This approach would put CalPERS in a “leading” rather than “lagging” position in relation to the marketplace survey data. A 6% increase would result in a base salary range for the SPM of \$174,000 – 243,000 (rounded to the nearest thousand).

PORTFOLIO MANAGERS

Salary Setting History – 2004

The salary history and, specifically the actions of the Board in 2004, are discussed above under Senior Investment Management Positions.

Policy Provisions Relating to the Portfolio Manager

Private sector salary survey data will be obtained for Chief Investment Officer, Senior Investment Officer and Portfolio Manager positions. CalPERS base salary ranges for investment management positions will be targeted at the median of the data unless recruitment and retention considerations compel breaking the existing parity relationships at the Senior Investment Officer, Senior Portfolio Manager or Portfolio Manager levels. Definition: For purposes of this provision, for investment positions, the “median of the data” shall be interpreted as being within 10% of the midpoint in the array of all specialized survey positions comparable to Senior Investment Officer (SIO) and Portfolio Manager (PM), respectively.

Salary Data - 2006

The absence of the AIMR survey for Portfolio Managers, as described in the Introduction at the beginning of this report, explains the appearance of a drop in the market for these positions. A consideration of the market among independent investment management companies suggests that the current range for portfolio managers is wide enough and positioned appropriately to accommodate base salary attraction and retention needs from both banking and insurance institutional investors and the higher risk independent management comparators.

PORTFOLIO MANAGER SURVEY DATA				
Data Source	Number of Positions	Base Salary at the Median (50 th %tile)	25 th %tile	Total Comp. Median (50 th %tile)
<u>Asset Alloc/Risk Mgmt</u>				
WWDS (Bank/Ins)	22	\$88,753	\$87,971	\$97,049
<u>(Active) Domestic Equity</u>				
Mercer (Insurance)	28	118,374	119,396	139,782
WWDS (Insurance)	24	111,242	109,885	125,225
<u>Currency and Int'l Fixed Income</u>				
Mercer (Insurance)	28	118,374	119,396	139,782
WWDS (Insurance)	24	111,242	109,885	125,225
<u>Alternative Investments</u>				
Mercer (Insurance)	28	118,374	119,396	139,782
WWDS (Insurance)	24	111,242	109,885	125,225
<u>Domestic Research</u>				
Mercer (Insurance)	28	118,374	119,396	139,782
WWDS (Insurance)	24	111,242	109,885	125,225

PORTFOLIO MANAGER SURVEY DATA - Continued				
Data Source	Number of Positions	Base Salary at the Median (50 th %tile)	Total Comp. 25 th %tile	Median (50 th %tile)
<u>External Equity-Global Equity</u>				
Mercer (Insurance)	28	\$118,374	\$119,396	\$139,782
WWDS (Insurance)	24	111,242	109,885	125,225
<u>External Equity - International</u>				
Mercer (Insurance)	28	118,374	119,396	139,782
WWDS (Insurance)	24	111,242	109,885	125,225
<u>Global Governments</u>				
Mercer (Insurance)	28	118,374	119,396	139,782
WWDS (Insurance)	24	111,242	109,885	125,225
<u>International Research</u>				
Mercer (Insurance)	28	118,374	119,396	139,782
WWDS (Insurance)	24	111,242	109,885	125,225
<u>International Internal Equity</u>				
Mercer (Insurance)	28	118,374	119,396	139,782
WWDS (Insurance)	24	111,242	109,885	125,225
<u>Opportunistic Fixed Income</u>				
Mercer (Insurance)	28	118,374	119,396	139,782
WWDS (Insurance)	24	111,242	109,885	125,225
<u>Passive Equity</u>				
Mercer (Insurance)	28	118,374	119,396	139,782
WWDS (Insurance)	24	111,242	109,885	125,225
<u>Quantitative Strategies</u>				
Mercer (Insurance)	28	118,374	119,396	139,782
WWDS (Insurance)	24	111,242	109,885	125,225
<u>Real Estate</u>				
Mercer (Insurance)	28	118,374	119,396	139,782
WWDS (Insurance)	24	111,242	109,885	125,225
<u>Short-Duration Fixed Income</u>				
Mercer (Insurance)	28	118,374	119,396	139,782
WWDS (Insurance)	24	111,242	109,885	125,225
MIDPOINT OF DATA ARRAY		\$114,808	\$109,885	\$125,225

PORTFOLIO MANAGERS – Continued

CalPERS Current Data

Current Base Salary Range	Midpoint of Range	Total Comp at midpoint of range plus award at target of 30%
\$119,000 – 155,000	\$137,000	\$178,100
% Increase for Range Midpoint to reach Median of Survey Data		0%

Incumbents' Placement in Current Range			
First Quartile	Second Quartile	Third Quartile	Fourth Quartile
4 Portfolio Managers	2 Portfolio Managers	7 Portfolio Managers	6 Portfolio Managers

Alternative Options for Consideration

1. Take no action to increase the base salary range for the Portfolio Manager position, since survey data indicates that it is in line with the market at the current time. Salary actions taken by the Board in 2004 placed CalPERS base salary range in a leading position in relation to market compensation. Review at the next biennial salary survey.
2. Increase the base salary range for the Portfolio Manager position by 6%. This would anticipate continued upward movement of approximately 3% per year for the two years until the next survey. This approach would put CalPERS in a “leading” rather than “lagging” position in relation to the marketplace survey data. A 6% increase would result in a base salary range for the PMs of \$126,000 – 164,000 (rounded to the nearest thousand).

SUMMARY OF ALTERNATIVES

CHIEF EXECUTIVE OFFICER - Alternative Options for Consideration

1. Make no change in the base salary range for the Chief Executive Officer position. The policy states that the CEO's salary will be targeted between the median and 75th percentile of the salary data. As noted above, historically the maximum of the current range was compared to the midpoint of the survey data. Applying the same criteria, the maximum of the current range is greater than the midpoint between the median and the 75th percentile of the salary data.
2. Increase the base salary range by 6%. This would provide for growth in the years until the next salary survey and would allow further progression within the range, based on the performance of the incumbent. This would provide a new base salary range for the CEO of \$175,000 - \$239,000 (rounded to the nearest thousand).

CHIEF ACTUARY - Alternative Options for Consideration

1. Increase the base salary range for the Chief Actuary by 3.7%. This brings the range maximum to the midpoint between the 25th percentile and the median of the survey data, in accordance with the policy provisions. This would result in a new base salary range of \$187,000 – 234,000 (rounded to the nearest thousand).
2. Increase the base salary range for the Chief Actuary by 6% to provide additional opportunity for growth within the range until the next biennial survey, based on the performance of the incumbent. This would result in a new base salary range of \$191,000 – 239,000 (rounded to the nearest thousand).

SENIOR INVESTMENT OFFICER - Alternative Options for Consideration

1. Increase the base salary range by 1% to bring the range midpoint to the median of the survey data, as required by the policy provisions. This would be applied to the range and also applied immediately to the incumbents' base salaries, in accordance with the policy, which states, "*The base salary rates of incumbents in investment management positions will also be adjusted by the same percentage as the range is adjusted to reach the median of the data, prior to any performance-based adjustment...*" A 1% increase would result in a base salary range of \$235,000 – 340,000 (rounded to the nearest thousand).
2. Increase the base salary range for the Senior Investment Officer position by 1% plus 6%. This would be a similar approach to the increases in 2004, and would anticipate continued upward movement of approximately 3% per year for the two years until the next survey. This approach would put CalPERS in a "leading" rather than "lagging"

SENIOR INVESTMENT OFFICER – Alternative Options for Consideration

position in relation to the marketplace survey data. A 1% plus 6% increase would result in a base salary range for the SIOs of \$249,000 – 361,000 (rounded to the nearest thousand).

CHIEF INVESTMENT OFFICER - Alternative Options for Consideration

NOTE: The Policies and Procedures state that the *CIO and SPM base salary ranges will be adjusted by the same percentage as the SIO, unless the CIO data compel otherwise for that position*. Therefore, the following options are the same as those for the Senior Investment Officer. It is anticipated that the same selection will be made for both the CIO as the SIO.

1. Increase the base salary range by 1%, consistent with SIO range movement, to bring the range midpoint to the median of the survey data, as required by the policy provisions. This would be applied to the range and also applied immediately to the incumbent's base salary, in accordance with the policy, which states, *"The base salary rates of incumbents in investment management positions will also be adjusted by the same percentage as the range is adjusted to reach the median of the data, prior to any performance-based adjustment..."* A 1% increase would result in a base salary range for the CIO of \$360,000 – 539,000.
2. Increase the base salary range for the Chief Investment Officer position by 1% plus 6% if this alternative is selected for the SIO. This would be a similar approach to the increases in 2004, and would anticipate continued upward movement of approximately 3% per year for the two years until the next survey. This approach would put CalPERS in a "leading" rather than "lagging" position in relation to the marketplace survey data. A 6% increase would result in a base salary range for the CIO of \$380,000 – 571,000 (rounded to the nearest thousand).

SENIOR PORTFOLIO MANAGER – Alternative Options for Consideration

NOTE: The Policies and Procedures state that the *CIO and SPM base salary ranges will be adjusted by the same percentage as the SIO, unless the CIO data compel otherwise for that position*. Therefore, the following options are the same as those for the Senior Investment Officer. It is anticipated that the same selection will be made for both the CIO as the SIO.

1. Increase the base salary range by 1%, consistent with SIO range movement to bring the range midpoint to the median of the survey data, as required by the policy provisions. This would be applied to the range and also applied immediately to the incumbent's base salary, in accordance with the policy, which states, *"The base salary rates of incumbents in investment management positions will also be adjusted by the same percentage as the range is adjusted to reach the median of the data, prior to any performance-based adjustment..."* A 1% increase would result in a base salary range for the SPM of \$164,000 – 229,000.

2. Increase the base salary range for the Senior Portfolio Manager position by 1% plus 6% if this alternative is selected for the SIO. This would be a similar approach to the increases in 2004, and would anticipate continued upward movement of approximately 3% per year for the two years until the next survey. This approach would put CalPERS in a “leading” rather than “lagging” position in relation to the marketplace survey data. A 1% plus 6% increase would result in a base salary range for the SPM of \$174,000 – 243,000 (rounded to the nearest thousand).

PORTFOLIO MANAGER – Alternative Options for Consideration

1. Take no action to increase the base salary range for the Portfolio Manager position, since survey data indicates that it is in line with the market at the current time. Salary actions taken by the Board in 2004 placed CalPERS base salary range in a leading position in relation to market compensation. Review at the next biennial salary survey.
2. Increase the base salary range for the Portfolio Manager position by 6%. This would anticipate continued upward movement of approximately 3% per year for the two years until the next survey. This approach would put CalPERS in a “leading” rather than “lagging” position in relation to the marketplace survey data. A 6% increase would result in a base salary range for the PMs of \$126,000 – 164,000 (rounded to the nearest thousand).